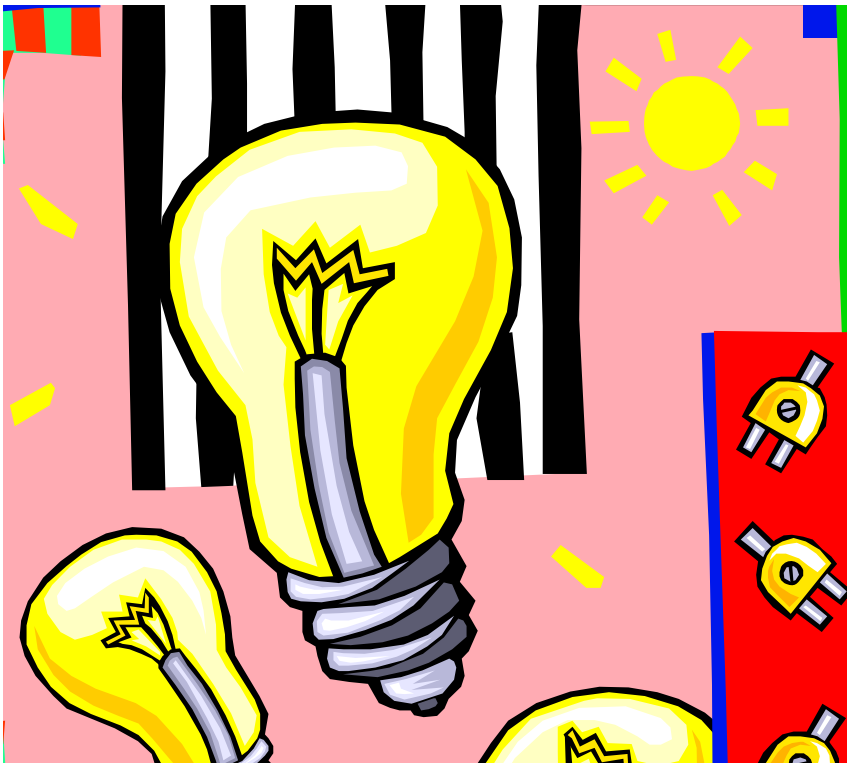
Seattle City Light

Electrical Rates Forum 2006
Discussion Guide
For Residential Customers



Seasonal Rates

What are we talking about?

"Seasonal rates" are rates that are higher during months when it costs more to produce or buy electricity, and lower in the months when it costs less to produce or buy electricity. City Light had higher winter rates and lower summer rates from 1980 through early 2001. During the 2001 energy crisis, seasonal rates were replaced with year-round rates.

The Energy Policy Act of 2005 requires electric utilities to consider a seasonal rate schedule to each customer class that reflects the cost of generating and purchasing electricity at the wholesale level. For City Light, it makes sense to lump certain months together as the higher-cost period, and others together as the lower-cost period. At City Light, wholesale prices tend to be lowest in the four-month period of April through July and higher during the other months. But, on average, prices from April through October are lower than prices from November through March.

What are the questions?

Should City Light implement a system of seasonal rates? An April to October system of lower-cost rates, with November through March rates being higher, is one possibility. The difference between the rates would be small.

Or, should City Light implement a system of eight months of higher-cost rates (August through March) and four months of lower-cost rates (April through July), with a larger difference between the seasonal rates?

What are the pros and cons?

Higher seasonal rates send price signals to customers to use less energy. The cost of producing energy is higher during the colder months of the year when demand is greater and during the dry period of late summer and fall when there is less water at our dams. Higher seasonal rates during these times of the year provide customers with motivation to conserve electricity thereby reducing their annual energy costs.

As strong as the motivation is to conserve, it is also true that higher rates during the colder months means customers are paying more for electricity when the need is greatest. This can impact lower-income customers more than a standard year-round rate.

The primary benefit of seasonal rates is that customers can make decisions to lower their bill by using less energy during higher-cost periods. The shorter the higher-cost period, the larger the difference, and therefore the greater the potential for savings by the customer.

What do <u>you</u> think?

Do you think seasonal rates would have an impact on energy conservation? When compared to lower-rate season, is it better to have a shorter period of higher rates and a larger difference? Or, is it better to have a longer period with less of a difference? What leads you to this conclusion?

Low-income Rates

What are we talking about?

Rates are structured such that qualified low-income customers pay less. Current low-income rates are about 40% of the residential rates. Low-income customers currently pay less than half of the residential rate, because they were partially exempt from the rate increases of 2001-02. A 2004 City Council resolution stated that the low-income rate should be returned to 50% of the residential rate gradually over several rate periods.

What are the questions?

Should City Light raise the low-income rates from 40% to 50% of the residential rates in 2007?

Should City Light apply the policy of gradualism and slowly increase the low-income rate over a period of years?

What are the pros and cons?

This has ramifications for low-income customers. Qualified low-income customers currently pay an average of 3.22 cents per kWh, and this would jump to about 4 cents if the increase were imposed all at once assuming there is no increase in rates overall. This would mean about $26 more per year to the average low-income customer if their rates were increased in three steps. After three years, a low-income customer would pay an average of around $78 more per year than he or she is paying now.

If the rates were increased all at once, other customer classes would benefit from about $1.2 million in revenues generated from low-income customers. If the increase was done gradually, about $.4 million per year in revenues would benefit other customer classes.

The increased revenue would have a negligible influence on the average residential bill because there are 13,700 low-income customers compared to 323,000 standard rate residential customers. If low-income rates continue to be 40% of the residential rate, amounts paid by all other customer classes will total approximately $8.5 million in 2007. This equates to about 78 cents/month for the average non-low-income residential bill. If low-income rates were set at 50%, other customer classes would pay an additional 76.5 cents per month.

What do <u>you</u> think?

Should low-income rates be increased to 50% of residential rates, kept at 40%, or changed in some other way? What leads you to this conclusion?

Suburban Rates

What are we talking about?

In addition to customers within the City of Seattle, Seattle City Light provides power to Burien, Lake Forest Park, SeaTac, Shoreline and Tukwila. Per agreements with these cities the utility can charge those communities up to 8% more on the power portion of rates for electricity (and 6% more on the distribution portion of rates in the case of Tukwila). These agreements require the utility to remit a consideration of 6% on the power portion (plus 6% on the distribution portion in the case of Tukwila) of the retail sales to those cities. City Light is permitted to assess a rate differential on suburban customers and set the differential at the maximum allowed under the agreements. Changes to rates made since early 2001 have not maintained the full differential because they have been made in the form of additions or subtractions of across-the-board cents per kilowatt-hour.

If suburban rates were raised to the maximum amount provided in the agreement, the increase in average suburban rates is estimated to be approximately 2%.

What are the questions?

Should City Light increase its rates for suburban customers to the maximum provided by the suburban agreements?

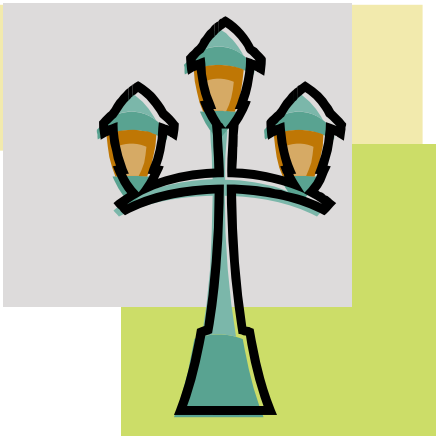
What are the pros and cons?

It is estimated that an increase to the maximum permitted would generate about $2 million in revenue that would be applied to reducing the rates of Seattle's residential customers. City Light's residential customers could see their average rate decrease by about 1.2%, at the same time that suburban customers would see a small percentage rise in their rates.

What do <u>you</u> think?

Should City Light raise the suburban rates to the maximum amount provided in the agreements? What leads you to this conclusion?

Streetlights



What are we talking about?

When costs for streetlights were calculated for the 2002 rates (which are currently in effect) it was clear that the revenue needed for streetlights would result in a substantial rate increase for streetlight customers. City Light applied the policy of gradualism to ease the impact of the rate increase on streetlight customers. The government of the City of Seattle represents approximately 80% of this customer class.

What are the questions?

Should City Light increase streetlight rates to their full cost of service in the next rate study?

Or, should City Light apply the policy of gradualism and increase streetlight rates over the next several rate periods?

What are the pros and cons?

Increasing to the full cost of service immediately would mean that streetlight customers would see a significant increase in rates. This would result in a slight decrease in rates for other customers.

If City Light gradually increases rates to the full cost of service over the next several years, streetlight customers will see a modest rise in their rates. All other customers would still receive a decrease in rates, it would simply be allocated over the same number of years.

What do you think?

How should City Light raise the streetlight rates? Should they do it in a single period or raise the rates gradually? What leads you to this conclusion?